

Message Text

PAGE 01 TEHRAN 08505 011021Z

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC NIACT IMMEDIATE 3248

S E C R E T TEHRAN 8505

NODIS

FOR UNDER SECRETARY ROBINSON FROM AMBASSADOR

E.O. 11652: GDS

TAGS: ENGR, IR

SUBJ: SAUDI - IRANIAN OIL PRICE DISCUSSION

REF: STATE 207657

1. YAMANI DID NOT MEET WITH AMOUZEGAR, WHO WAS OUT OF THE COUNTRY BUT HE DID SEE THE SHAH ON AUGUST 28. I KNOW OF NO ONE WHO IS PRIVY TO THEIR CONVERSATION. ALL OF THE SHAH'S OTHER TRUSTED OIL ADVISORS (EQBAL, MINA, YAGANEH) ARE ALSO OUT OF THE COUNTRY SO THERE IS NO WAY OF CHECKING WITH THEM. IN SUM THE SHAH IS THE ONLY ONE WHO HAS THE PRECISE INFORMATION REQUESTED AND HE IS AT RAMSAR (ON THE CASPIAN) CHAIRING AN IMPORTANT EDUCATIONAL CONFERENCE AND THEREFORE UNAVAILABLE.

2. I BELIEVE WE CAN ASSUME, HOWEVER, THAT YAMANI SOUGHT TO NARROW SAUDI-IRANIAN DIFFERENCES (IF ANY) ON AN OIL PRICE INCREASE, BUT DOUBT SERIOUSLY THAT HE PERSUADED THE SHAH TO HOLD TO A PRICE FREEZE IF THIS WAS ACTUALLY HIS PURPOSE. FROM WHAT WE KNOW AND WHAT YOU HAVE HEARD PERSONALLY OF THE SHAH'S ATTITUDE ON THIS QUESTION, FREQUENTLY STATED PUBLICALLY AND THEREFORE ALL THE MORE DIFFICULT
SECRET

PAGE 02 TEHRAN 08505 011021Z

FOR HIM TO RETREAT FROM, HE FEELS THERE IS AMPLE JUSTIFICATION FOR A PRICE INCREASE AND IS PRESSING HARD FOR ACCEPTANCE OF HIS POINT OF VIEW. HE KNOWS THAT OPEC EXPORTS ARE ON THE RISE AND THAT MANY

EXPERTS EXPECT FURTHER INCREASES IN THE RELATIVELY NEAR FUTURE. THESE EXPECTATIONS DERIVE FROM THE OIL COMPANIES' REBUILDING OF DEPLETED STOCKS IN ANTICIPATION OF A PRICE INCREASE, THE COMING WINTER DEMAND, AND SOME ECONOMIC RECOVERY IN MAJOR CONSUMING COUNTRIES. HE IS DOUBTLESS ALSO AWARE THAT SEVERAL OIL EXPORTORS WHO HAD ENJOYED HIGH FREIGHT AND QUALITY PREMIUMS IN 1974 AND WHO HAVE SEEN THEIR EXPORTS FALL DUE TO A DECLINE IN THE VALUE OF THEIR CRUDES RELATIVE TO BENCHMARK ARABIAN LIGHT WISH TO SEE A PRICE INCREASE FOR MARKER CRUDE. A MARKER PRICE RISE WOULD ENABLE THEM TO INCREASE THEIR OWN CRUDE PRICES, ALBEIT TO A LESSER EXTENT, AND THUS MAINTAIN THEIR MARKET SHARE AND RECOUP LOST REVENUE. IN SUM, HE PROBABLY SEES ALL OF THE MARKET FORCES SUPPORTING A PRICE INCREASE AND INFLATION IN THE WEST FULLY JUSTIFYING ONE. FURTHER, HE IS IN SOMETHING OF A CASH FLOW BIND AND THEREFORE NOT ABLE TO DO ALL HE (OR WE) WOULD LIKE HIM TO DO.

3. MY JUDGEMENT IS THAT THE OIL PRICE INCREASE ISSUE HAS NOT YET BEEN SETTLED AMONG OPEC PARTNERS BUT THAT ALMOST ALL OF THE FORCES ARE FOR SOME INCREASE AND WHAT REMAINS TO BE DETERMINED IS THE AMOUNT THEREOF. WE DOUBT SAUDI ARABIA WILL BREAK WITH ITS OPEC PARTNERS ALTHOUGH IT WILL ALMOST CERTAINLY STAND ALONE IF IT CONTINUES TO ARGUE AGAINST AN INCREASE.
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